
Maryland Department of Transportation Fiscal 2022 Budget Overview

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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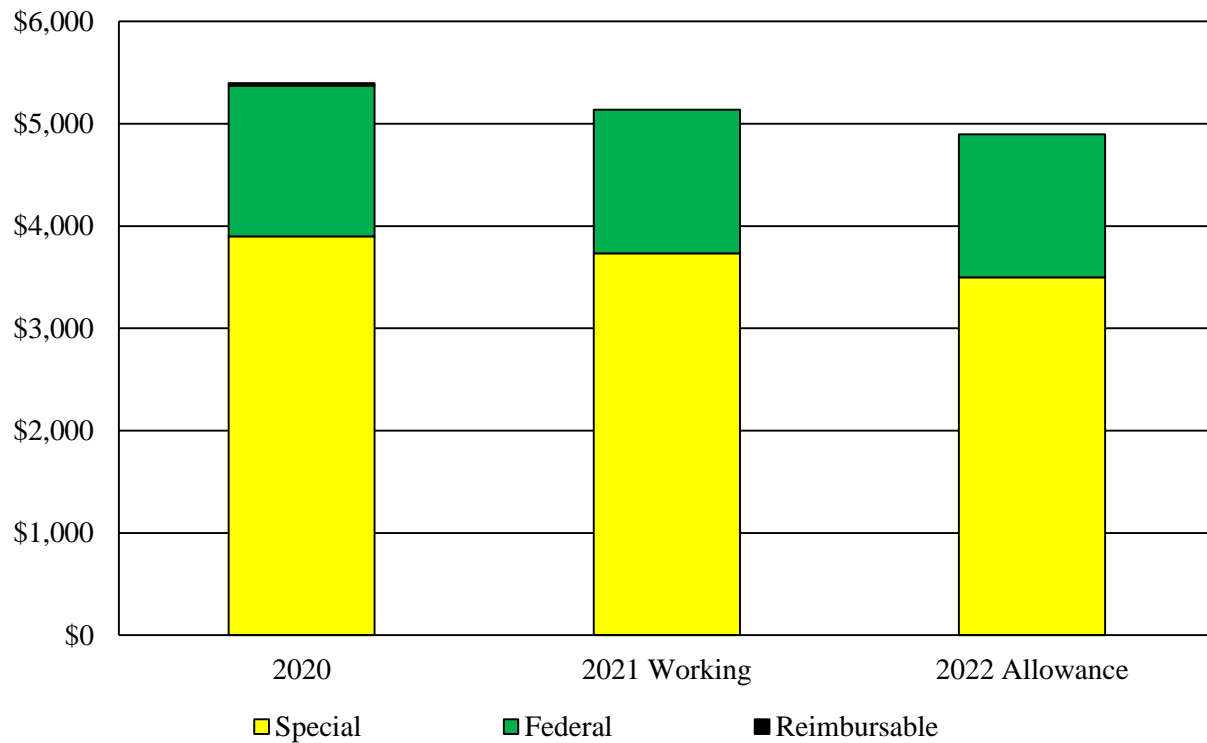
Analysis of the FY 2022 Maryland Executive Budget, 2021

Executive Summary

This analysis provides an overview of the status of the six-year Transportation Trust Fund forecast, including revenue and spending projections as well as a summary of the entire fiscal 2022 budget for the Maryland Department of Transportation (MDOT).

Operating Budget Summary

Budget Decreases \$239.6 Million, or 4.7%, to \$4.9 Billion in Fiscal 2022
(\$ in Millions)



Note: The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions and annualization of the fiscal 2021 general salary increases.

Key Observations

- The COVID-19 pandemic has had a significant impact on the transportation sector in Maryland and on the MDOT revenues and operating and capital budgets.
- The six-year capital program for fiscal 2021 to 2026 is \$1.1 billion smaller than the prior year program. MDOT special fund support for the six-year program is \$1.3 billion less than the amount anticipated in the prior year plan.
- The Purple Line is continuing under a public-private partnership (P3) project delivery model, and MDOT is moving ahead on its efforts to construct managed toll lanes on I-495 and I-270 as a P3.

Operating Budget Recommended Actions

1. Add annual language requiring notification of changes to the capital program.
2. Add annual language establishing a position cap.

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Maryland Department of Transportation
Fiscal 2022 Budget Overview

Transportation Trust Fund Overview

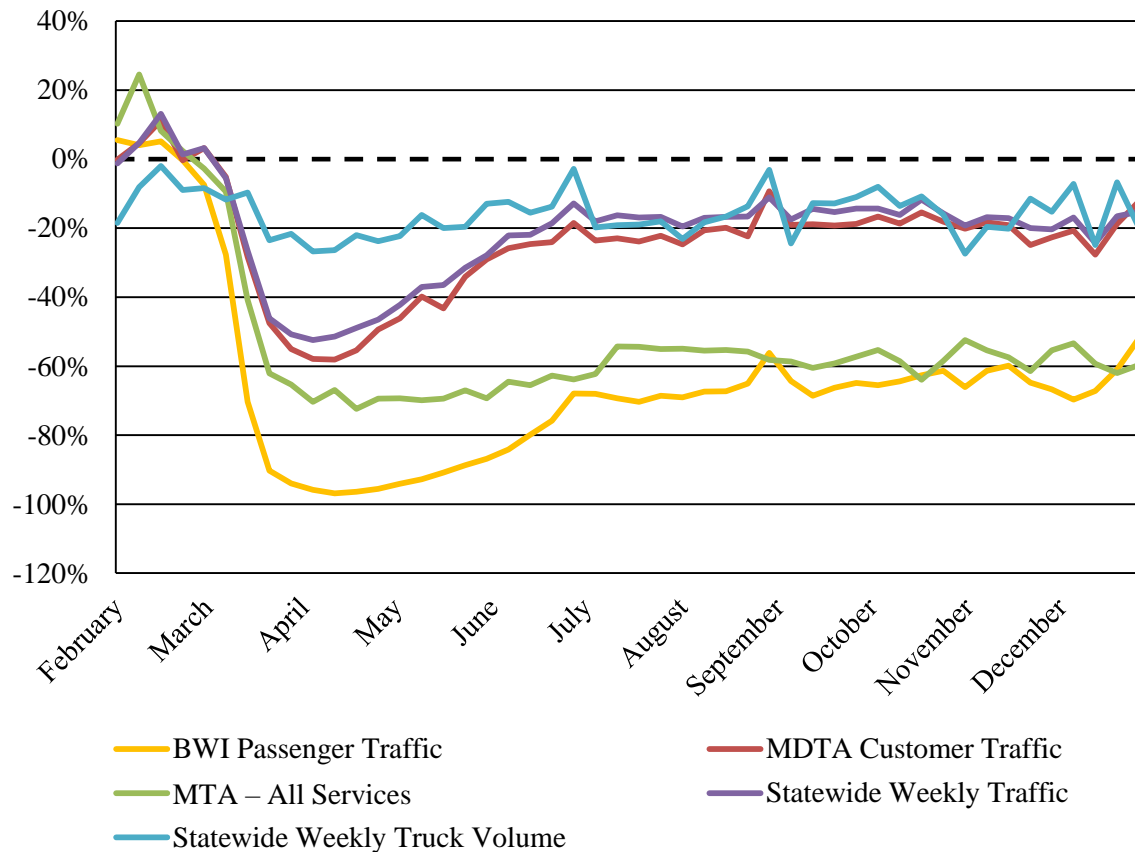
The Transportation Trust Fund (TTF) is a nonlapsing special fund that provides funding for transportation. It consists of tax and fee revenues, operating revenues, bond proceeds, and fund transfers. The Maryland Department of Transportation (MDOT) issues bonds backed by TTF revenues and invests the TTF fund balance to generate investment income. The Maryland Transit Administration (MTA), the Motor Vehicle Administration, the Maryland Port Administration, and the Maryland Aviation Administration (MAA) generate operating revenues that cover a portion of their operating expenditures.

The tax and fee revenues include motor fuel taxes, rental car sales taxes, titling taxes, vehicle registration fees, a portion of the corporate income tax, and other miscellaneous motor vehicle fees. A portion of these revenues is credited to the Gasoline and Motor Vehicle Revenue Account (GMVRA), the balance of which is used as the basis for calculating the amount of local aid to be provided through mandated capital appropriations. The funds retained by the TTF support the capital program, debt service, and operating costs.

COVID-19 Impacts

The COVID-19 pandemic has had a widespread impact on the transportation sector and on MDOT revenues, services, and budget. As shown in **Exhibit 1**, the use of transportation services and facilities declined dramatically as the pandemic hit. Although usage has increased from the lows experienced in April 2020, it is still significantly lower than prepandemic levels. Air travel and total transit ridership experienced declines of 97% and 72%, respectively, in calendar 2020 compared to the same week in 2019, while statewide weekly traffic and use of Maryland's toll facilities saw usage drop to 52% and 58%, respectively, compared to the prior year.

Exhibit 1
COVID-19 Impacts on Transportation Services
Weekly Percent Change Compared to Prior Year
Calendar 2020



BWI: Baltimore-Washington International Thurgood Marshall Airport
MDTA: Maryland Transportation Authority
MTA: Maryland Transit Administration

Source: Maryland Department of Transportation; Department of Legislative Services

Lower ridership, combined with decreased economic activity resulting from the effects of the pandemic, has negatively impacted MDOT revenues. Although MDOT received \$503 million from the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act and is expected to receive an additional \$258 million from the December 2020 supplemental federal stimulus funding, it was nevertheless forced to make significant reductions to its operating and capital budgets and forecasts. This is clearly demonstrated by **Exhibit 2**, which compares total revenues and expenditures for the five-year period (fiscal 2021 through 2025) included in both the January 2020 and January 2021 TTF forecasts.

Exhibit 2
Transportation Trust Fund Forecasts
Fiscal 2021-2025
(\$ in Millions)

	January 2020 Forecast	January 2021 Forecast	Change
Revenues			
Taxes and Fees	\$16,202	\$15,114	-\$1,089
Operating and Other Revenues	2,957	2,407	-550
Federal Operating Assistance	530	539	9
Federal CARES Act	0	148	148
Bond Proceeds and Premiums	1,715	1,535	-180
Change in Fund Balance	-25	85	110
Total Revenues	\$21,379	\$19,828	-\$1,552
Expenditures			
Debt Service	\$2,339	\$2,245	-\$94
Operating Budget	12,599	11,862	-737
Deductions to Other Agencies	405	394	-11
Highway User Revenues Capital Grants	1,281	1,220	-61
State Capital Program	4,755	4,107	-648
Total Expenditures	\$21,379	\$19,828	-\$1,552

CARES: Coronavirus Aid, Relief, and Economic Security

Source: Maryland Department of Transportation; Department of Legislative Services

Revenues and spending for the five-year period are \$1.6 billion lower in the current forecast compared to what was included in the January 2020 pre-COVID-19 forecast. MDOT made nearly \$98 million in cost containment reductions to its fiscal 2021 budget, and operating spending in the current forecast for the five-year period is \$737 million less than was anticipated in the previous forecast.

Fiscal 2020 TTF Revenue Closeout

As shown in **Exhibit 3**, the TTF ended fiscal 2020 with a fund balance of \$260 million, an amount \$110 million higher than the \$150 million projected balance. This larger balance was made possible by the use of \$336 million in CARES Act funds combined with cost containment efforts that the department undertook in response to the COVID-19 pandemic. Absent the federal relief funds, revenues would have closed out \$333 million lower than estimates. On the spending side, expenditures on departmental operations and for Highway User Revenues (HUR) aid to local

governments were \$89 million and \$22 million lower, respectively, than projected, while cash flow requirements for State capital projects resulted in an increase of \$11 million over estimate. The reduction in HUR reflects reduced revenue attainment of the sources upon which the aid is calculated.

Exhibit 3
Fiscal 2020 Transportation Trust Fund Closeout
State and Federal COVID-19 Relief Funds Only
(\$ in Millions)

	<u>Projected</u>	<u>Actual</u>	<u>Variance</u>
Starting Fund Balance	\$319	\$319	\$0
Revenues			
Motor Fuel Taxes	\$1,177	\$1,076	-\$101
Titling Taxes	935	847	-88
Corporate Income Tax, Registrations, and Miscellaneous Motor Vehicle Administration Fees	894	818	-76
Sales Tax – Rental Vehicles	35	32	-3
MDOT Operating Revenues (MAA, MPA, and MTA)	476	394	-82
Federal CARES Act Funding	0	336	336
Transfer from Dedicated Purpose Account	110	75	-35
Other Receipts and Adjustments	80	131	51
Bond Proceeds and Premiums	552	553	1
Total Revenues	\$4,259	\$4,262	\$3
Uses of Funds			
MDOT Operating Expenditures	\$2,168	\$2,079	-\$89
MDOT Capital Expenditures	1,573	1,584	11
MDOT Debt Service	357	357	0
Highway User Revenues	259	237	-22
Other Expenditures	71	64	-7
Total Expenditures	\$4,428	\$4,321	-\$107
Final Ending Fund Balance	\$150	\$260	\$110

CARES: Coronavirus Aid, Relief, and Economic Security Act

MAA: Maryland Aviation Administration

MDOT: Maryland Department of Transportation

MPA: Maryland Port Administration

MTA: Maryland Transit Administration

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation; Department of Legislative Services

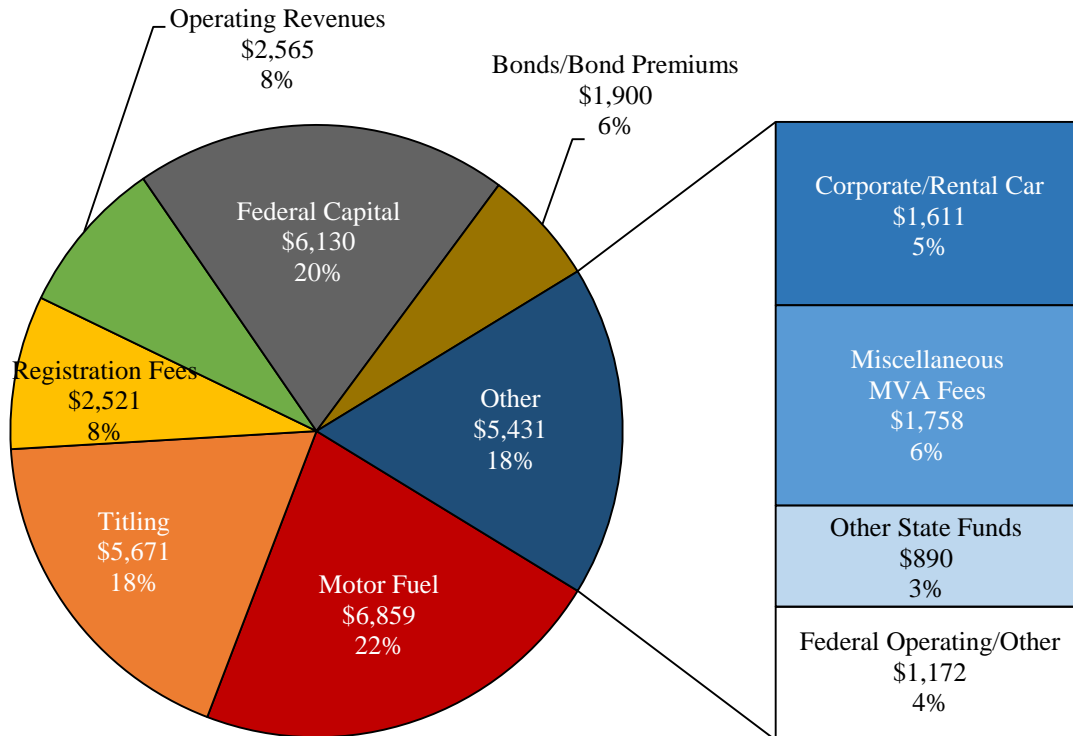
Fiscal 2021 Year-to-date Revenue Receipts

Fiscal 2021 revenue attainment from the TTF’s three largest State revenue sources – motor fuel taxes, titling taxes, and vehicle registration fees – is lower than projections based on five-year average attainment rates. With collections recorded through October 2020, combined attainment was down \$18.1 million with motor fuel tax and registration revenues underperforming and titling tax revenues ahead of estimates but not enough to offset the overall shortfall in combined revenues. This puts attainment from these sources on pace to miss the full-year estimate by just over \$62 million.

Fiscal 2021 through 2026 Revenues

Exhibit 4 shows that the TTF’s three largest revenue sources in the fiscal 2021 to 2026 forecast period are motor fuel taxes, federal capital assistance, and titling taxes, which collectively represent 60% of all projected revenue. In support of the capital program, MDOT is projecting \$1.9 billion in bond proceeds and bond premiums, representing 6.1% of projected revenues. Additionally, the TTF forecast anticipates \$125 million in general obligation (GO) bond premium fund support for the dedicated capital grant for the Washington Metropolitan Area Transit Authority (WMATA) in fiscal 2022 and a total of \$890 million in bond premium or other nontransportation State fund support over the six-year forecast.

Exhibit 4
Transportation Trust Fund
State-sourced Revenues and Federal Funds
Fiscal 2021-2026
(\$ in Millions)



Total Revenues: \$31.1 Billion

MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation, Fiscal 2021-2026 *Transportation Trust Fund Forecast*, January 2021; Department of Legislative Services

Six-year Transportation Trust Fund Forecast Summary

Exhibit 5 shows the TTF forecast summary that includes the fiscal 2020 actual and the fiscal 2021 to 2026 projections. It reflects the decision to increase the target closing balance beginning in fiscal 2024 to \$175 million from the \$150 million used the prior year. The increased fund balance is intended to accommodate working cash flow requirements during the year.

Exhibit 5
Transportation Trust Fund Forecast Summary
Fiscal 2020-2026
(\$ in Millions)

	<u>Actual</u> <u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Total</u> <u>2021-2026</u>
Opening Fund Balance	\$319	\$259	\$150	\$150	\$150	\$175	\$175	
Closing Fund Balance	\$259	\$150	\$150	\$150	\$175	\$175	\$175	
Net Revenues								
Taxes and Fees	\$2,708	\$2,676	\$2,813	\$2,968	\$3,095	\$3,168	\$3,220	\$17,940
Operating and Miscellaneous	956	583	589	610	656	656	643	3,737
Subtotal	\$3,664	\$3,259	\$3,402	\$3,578	\$3,751	\$3,824	\$3,863	\$21,677
Bond Proceeds	\$490	\$300	\$100	\$325	\$395	\$325	\$365	\$1,810
Bond Premiums	63	90	0	0	0	0	0	90
Fund Balance Increase/Use	59	110	0	0	-25	0	0	85
Total Net Revenues	\$4,276	\$3,759	\$3,502	\$3,903	\$4,121	\$4,149	\$4,228	\$23,662
Expenditures								
Debt Service	\$357	\$412	\$451	\$482	\$446	\$453	\$467	\$2,712
Operating Budget	2,173	2,180	2,240	2,281	2,339	2,398	2,459	13,897
Purple Line Availability Payments	0	0	0	119	154	151	153	577
State Capital (Including State Aid)	1,746	1,167	811	1,021	1,182	1,147	1,149	6,476
Total Expenditures	\$4,276	\$3,759	\$3,502	\$3,903	\$4,121	\$4,149	\$4,228	\$23,662
Debt								
Debt Outstanding	\$3,627	\$3,672	\$3,476	\$3,467	\$3,563	\$3,582	\$3,627	
Debt Service Coverage: Net Income	3.0	2.9	2.2	2.3	2.6	2.7	2.6	
Capital Summary								
State Capital	\$1,508	\$930	\$557	\$757	\$912	\$951	\$952	\$5,059
State Aid – Capital Grants	238	237	254	263	270	196	197	1,417
Net Federal Capital (Cash Flow)	1,045	1,299	1,283	935	918	891	804	6,130
Other Funds	187	270	424	356	312	200	100	1,662
Other State Funds	75	97	125	167	167	167	167	890
Total Capital Expenditures	\$3,290	\$2,833	\$2,643	\$2,479	\$2,579	\$2,405	\$2,220	\$15,158
Spending Above Revenues Included in the CTP	\$0	-\$2	\$3	\$6	\$4	\$4	\$5	\$20
GARVEE Debt Service	51							

CTP: Consolidated Transportation Program

GARVEE: Grant Anticipation Revenue Vehicle

Note: Numbers may not sum to total due to rounding.

Source: Maryland Department of Transportation, Fiscal 2021-2026 *Transportation Trust Fund Forecast*, January 2021; Department of Legislative Services

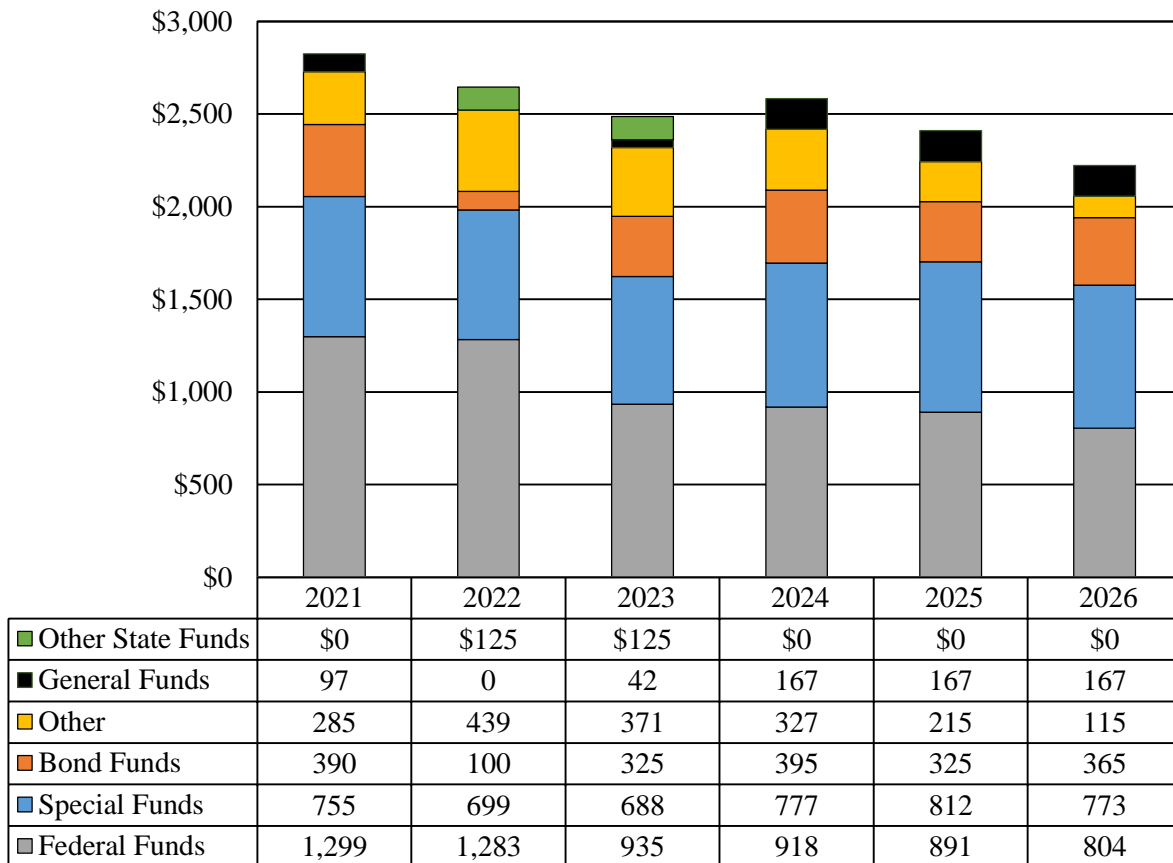
Revenues are first used to pay debt service and then to cover the department's operating expenses. Remaining revenues are used for the capital program, which is also funded through the sale of bonds; federal aid; and, beginning in fiscal 2020, general fund transfers from the Dedicated Purpose Account (DPA) to cover all or a portion of the WMATA dedicated capital grant. The fiscal 2022 allowance does not contain a general fund appropriation for WMATA in the DPA, but a section in the Maryland Consolidated Capital Bond Loan (MCCBL) of 2021 would authorize the use of \$125 million in GO bond premiums in the Annuity Bond Fund for the WMATA dedicated capital grant. The *Capital Improvement Program* (CIP) indicates an equivalent amount of bond premium funding is planned for fiscal 2023 along with \$42 million in general funds. The CIP includes \$167 million in general funds each year for the WMATA grant from fiscal 2024 through 2026.

Over the six-year forecast period, Consolidated Transportation Bond proceeds and premiums are projected to cover just over 29% of State capital expenditures. Debt outstanding at the end of fiscal 2020 totaled \$3.6 billion. During the forecast period, it fluctuates between a high of \$3.7 billion in fiscal 2021 to a low of \$3.5 billion in fiscal 2023 and, at the end of fiscal 2026, is projected to once again total \$3.6 billion. Bond covenants require MDOT to maintain a net income to maximum future debt service ratio of at least 2.0, and the department has an administrative practice of maintaining the ratio at no less than 2.5. However, as shown in Exhibit 5, the net income debt service coverage ratio is projected to dip below 2.5 in fiscal 2022 and 2023 and vary between 2.6 and 2.7 for the remaining years of the forecast.

Six-year Capital Program

Exhibit 6 shows the sources of funding for each year of the capital program. Federal funds are the largest source of capital funding, comprising 40.4% of six-year funding, while special funds and bond funds contribute 29.7% and 12.5%, respectively. Nontransportation State funds comprise 5.8% of the six-year funding total.

Exhibit 6
Proposed Capital Funding by Year and Source
Fiscal 2021-2026
(\$ in Millions)



Source: Maryland Department of Transportation, Fiscal 2021-2026 Consolidated Transportation Program; Department of Legislative Services

As shown in **Exhibit 7**, total programmed spending in the fiscal 2021 to 2026 *Consolidated Transportation Program* (CTP) is a net \$1,149.0 million, or 7%, less than in the prior year CTP. Special funds decrease by \$1,343.1 million from the prior year six-year plan. The special fund change by mode is shown at the bottom of Exhibit 7.

Exhibit 7
Transportation Capital Program Six-year Funding
January 2020 Plan vs. January 2021 Plan
All Funds and Special Funds by Mode
(\$ in Millions)

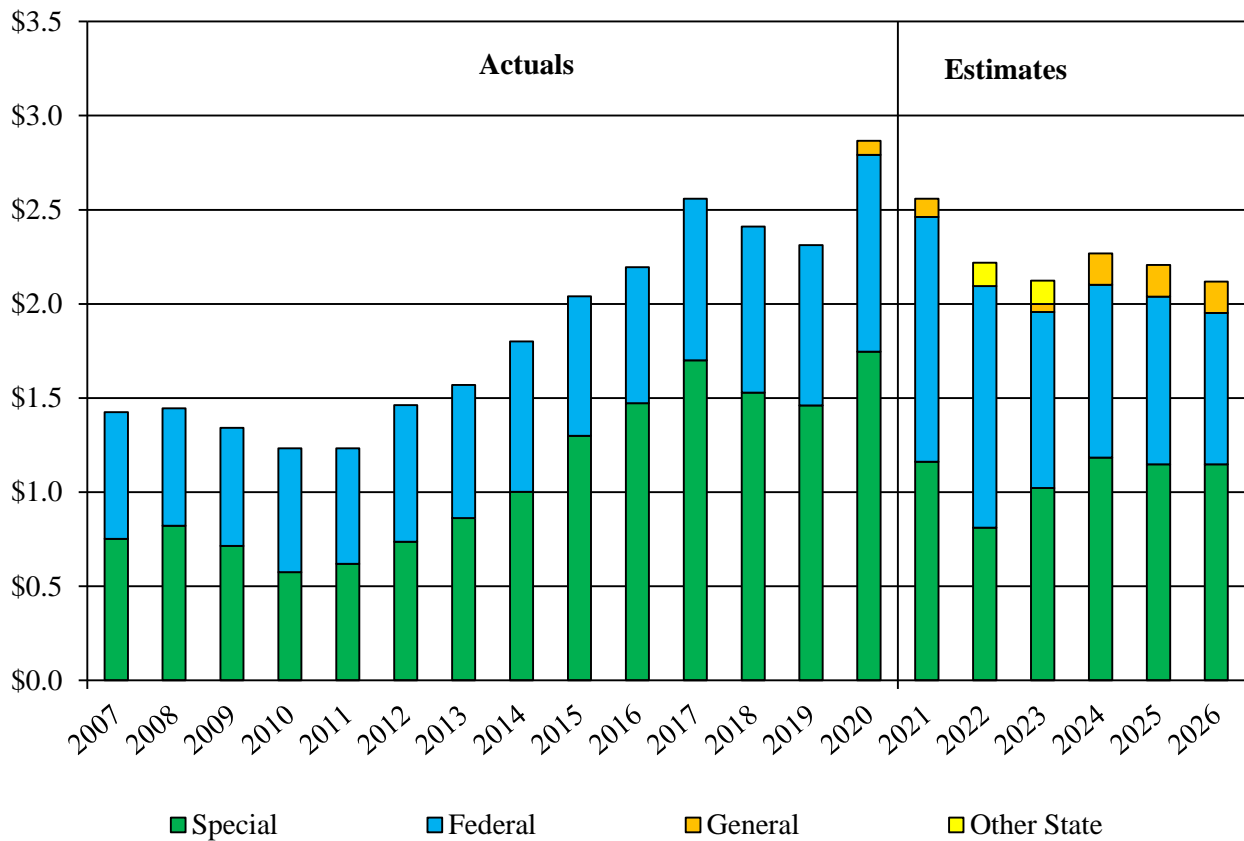
	<u>2020 Plan</u> <u>All Funds</u>	<u>2021 Plan</u> <u>All Funds</u>	<u>Change</u>
Maryland Transit Administration	\$3,007.0	\$3,132.0	\$125.0
Washington Metropolitan Area Transit Authority	2,705.5	2,704.6	-0.9
Motor Vehicle Administration	147.0	115.2	-31.8
Secretary's Office	146.5	108.1	-38.4
Maryland Port Administration	1,159.7	1,059.3	-100.4
State Aid	1,541.2	1,417.1	-124.1
Maryland Aviation Administration	1,034.0	854.2	-179.8
State Highway Administration	6,584.9	5,786.3	-798.6
Six-year All Funds Total	\$16,325.8	\$15,176.8	-\$1,149.0
Funds			
Special Funds	\$7,747.2	\$6,404.1	-\$1,343.1
Federal Funds	5,822.1	6,131.0	308.9
General Fund Transfer	903.0	640.0	-263.0
Other Funds	1,853.5	1,751.7	-101.8
Other State Funds	0.0	250.0	250.0
Total Funds	\$16,325.8	\$15,176.8	-\$1,149.0
	<u>Special Funds</u>	<u>Special Funds</u>	
Maryland Transit Administration	\$883.0	\$1,200.7	\$317.7
Washington Metropolitan Area Transit Authority	1,203.1	1,215.2	12.1
Motor Vehicle Administration	147.0	115.2	-31.8
Secretary's Office	130.6	97.5	-33.1
Maryland Port Administration	678.7	640.2	-38.5
Maryland Aviation Administration	260.3	166.6	-93.7
State Aid	1,541.2	1,417.1	-124.1
State Highway Administration	2,903.3	1,551.6	-1,351.7
Special Fund Total	\$7,747.2	\$6,404.1	-\$1,343.1

Note: Other Funds include federal funds received directly by the Washington Metropolitan Area Transit Authority.

Source: Maryland Department of Transportation; Department of Legislative Services

Exhibit 8 shows the level of planned capital spending by year compared with actual spending from past years. Combined special and federal capital spending exceeded \$2.0 billion for the first time in fiscal 2015. With the addition of general fund transfers beginning in fiscal 2020 to support the WMATA dedicated capital grant, capital spending peaked at nearly \$2.9 billion. With lower revenues resulting from the COVID-19 pandemic and the associated decrease in debt capacity, capital spending is projected to trend downward through most of the forecast period with the exception of a relatively small uptick between fiscal 2023 and 2024.

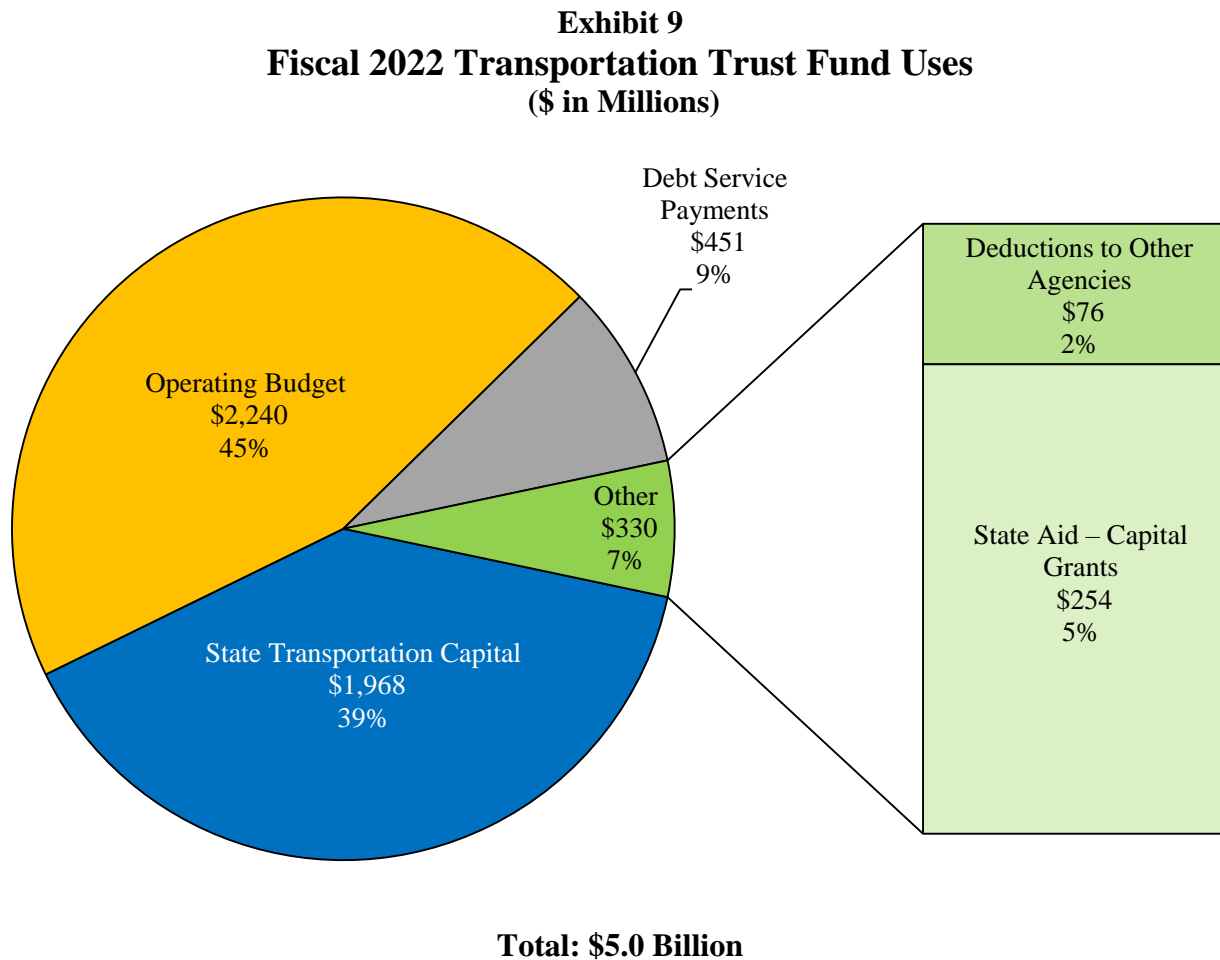
Exhibit 8
Capital Spending Trends
Fiscal 2007-2026
(\$ in Billions)



Source: Maryland Department of Transportation; Department of Legislative Services

Budget Overview

Exhibit 9 shows all expenditures from the TTF by category for fiscal 2022, with expenditures totaling approximately \$5.0 billion. The State capital program (excluding State aid capital grants) accounts for 39% of TTF spending with departmental operations comprising an additional 45%. The remainder of TTF expenditures cover debt service payments, State aid capital grants, and deductions to other State agencies.



Note: The chart includes special funds from the Transportation Trust Fund, the use of \$125 million in general obligation bond premiums in the Annuity Bond Fund to support the capital program, and federal funds only. It excludes \$424 million in other funding for the capital program. Other funding can include airport revenue bonds, loans from the Maryland Transportation Authority, passenger facility charges, customer facility changes, local county participation, and pass-through federal funding for the Washington Metropolitan Area Transit Authority.

Source: Maryland Department of Transportation, *Transportation Trust Fund Forecast*, January 2021; Department of Legislative Services

Proposed Budget

Exhibit 10 shows the operating and capital budgets, with adjustments, for the modal administrations, along with the amounts budgeted for debt service and State aid capital grants. The exhibit includes the fiscal 2020 actual through the fiscal 2022 allowance.

Exhibit 10 Transportation Budget Overview Fiscal 2020-2022 (\$ in Thousands)

	Actual 2020	Working App. 2021¹	Allowance 2022¹	\$ Change 2021-2022	% Change 2021-22
Operating					
Secretary's Office	\$89,806	\$101,976	\$100,571	-\$1,405	-1.4%
WMATA	465,894	424,480	450,723	26,243	6.2%
State Highway Administration	267,038	290,413	303,223	12,810	4.4%
Port Administration	47,038	48,790	49,727	938	1.9%
Motor Vehicle Administration	206,694	203,720	204,053	333	0.2%
Maryland Transit Administration	898,818	898,139	916,063	17,924	2.0%
Aviation Administration	198,008	195,935	199,376	3,441	1.8%
Subtotal	\$2,173,295	\$2,163,453	\$2,223,738	\$60,284	2.8%
Debt Service	\$356,921	\$415,915	\$451,330	\$35,414	8.5%
State Aid – Mandated Capital Grant	\$237,151	\$236,865	\$254,229	\$17,364	7.3%
Capital					
Secretary's Office	\$37,003	\$34,253	\$23,558	-\$10,695	-31.2%
WMATA	304,194	339,814	344,062	4,248	1.3%
State Highway Administration	1,360,807	1,107,424	850,351	-257,073	-23.2%
Port Administration	98,925	141,735	147,063	5,327	3.8%
Motor Vehicle Administration	39,569	39,011	27,065	-11,946	-30.6%
Maryland Transit Administration	696,016	577,441	529,145	-48,296	-8.4%
Aviation Administration	91,921	81,259	47,033	-34,225	-42.1%
Subtotal	\$2,628,435	\$2,320,938	\$1,968,278	-\$352,660	-15.2%
Total of All Funds					
Special Fund	\$3,897,607	\$3,731,558	\$3,498,824	-\$232,734	-6.2%
Federal Fund	1,475,032	1,405,613	1,398,750	-6,864	-0.5%
Reimbursable Fund	23,164	0	0	0	n/a
Grand Total	\$5,395,802	\$5,137,172	\$4,897,574	-\$239,598	-4.7%

WMATA: Washington Metropolitan Area Transit Authority

¹ Fiscal 2021 is adjusted to reflect deficiencies and funding for the 2% general salary increase. Fiscal 2022 is adjusted to annualize the fiscal 2021 general salary increase and to reflect the general salary increase and increments for State Law Enforcement Officers Labor Alliance members.

Source: Governor's Fiscal 2022 Budget Books; Department of Legislative Services

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Adjustments are included to reflect funding for the fiscal 2021 2% general salary increase that took effect January 1, 2021. Fiscal 2021 also includes deficiency appropriations making reductions to reflect revenue declines in the TTF, due to the effects of the COVID-19 pandemic and to realign appropriations to address pandemic-related operating changes. In total, the deficiencies reduce the fiscal 2021 budget for MDOT by \$125.5 million.

Fiscal 2022 has been adjusted to annualize the fiscal 2021 general salary increase and to reflect the general salary increase and increments funding for State Law Enforcement Officers Labor Alliance members.

MDOT's total adjusted fiscal 2022 allowance of \$4.9 billion is a net decrease of \$239.6 million, or a 4.7% reduction, from the current year working appropriation. Increases in operating expenses (\$60.3 million), debt service (\$35.4 million), and local transportation aid (\$17.4 million) are more than offset by a decrease in capital appropriations of \$352.6 million.

Operating Budget Analysis

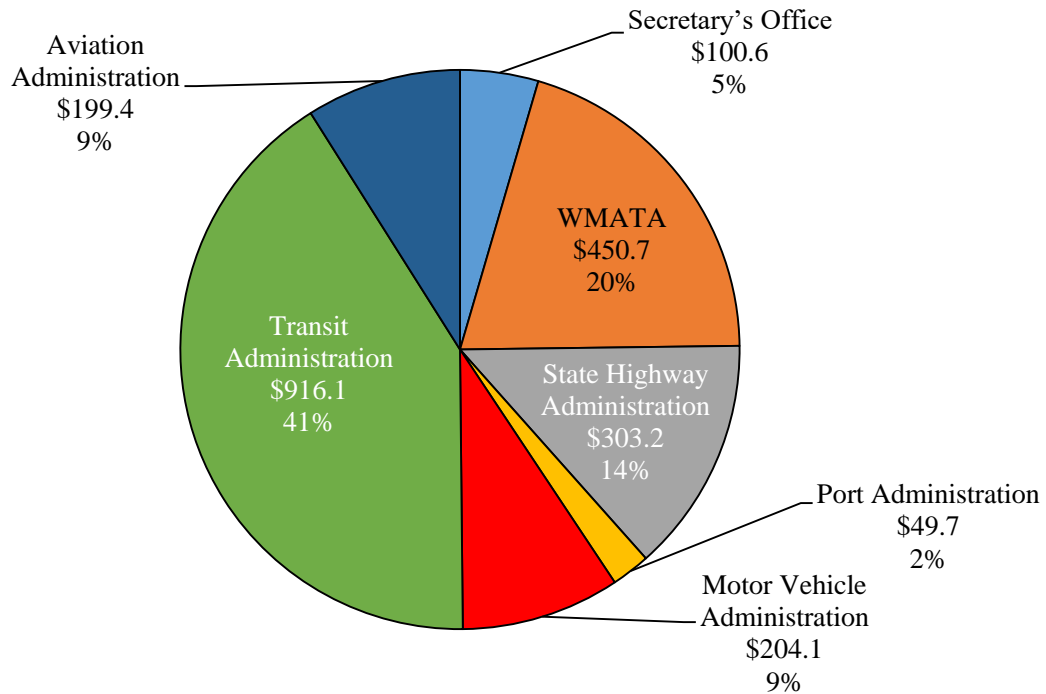
MDOT's operating allowance includes funding for the operations of each of the modes and for paying debt service on bonds issued to support capital spending. MDOT's fiscal 2022 operating budget allowance totals nearly \$2.7 billion, an increase of \$95.7 million (3.7%) over the current year working appropriation. Just over 83% of the operating allowance is used for the operating expenses of each of the modes with debt service accounting for the remaining 17% of operating spending.

Fiscal 2022 Proposed Budget

Operating Programs

The adjusted fiscal 2022 allowance for the modal operating budgets totals just over \$2.2 billion, an increase of \$60.3 million (2.8%) over the fiscal 2021 working appropriation. **Exhibit 11** shows the fiscal 2022 operating budget allowance by mode. Transit spending, the combined operating budget allowances for MTA and WMATA, represents the largest share of the MDOT operating budget at 61.5%.

Exhibit 11
Fiscal 2022 Operating Budget Allowance by Mode
(\$ in Millions)



Total Spending: \$2.2 Billion

WMATA: Washington Metropolitan Area Transit Authority

Source: Governor's Fiscal 2022 Budget Books; Department of Legislative Services

Personnel

As shown in **Exhibit 12**, the number of regular positions remains unchanged at 9,057.5 between the fiscal 2021 working appropriation and the fiscal 2022 allowance. The number of contractual full-time equivalents decreases by 7.2 between the working appropriation and the allowance.

Exhibit 12
Regular and Contractual Full-time Equivalents
Operating and Capital Programs
Fiscal 2020-2022

	<u>2020</u>	<u>Working 2021</u>	<u>Allowance 2022</u>	<u>Change 2021-22</u>	<u>% Change 2021-22</u>
Regular Positions					
Secretary's Office	323.0	322.0	323.0	1.0	0.3%
State Highway Administration	2,958.5	2,959.5	2,958.5	-1.0	0.0%
Port Administration	210.0	210.0	210.0	0.0	0.0%
Motor Vehicle Administration	1,706.5	1,707.5	1,706.5	-1.0	-0.1%
Transit Administration	3,365.0	3,364.0	3,365.0	1.0	0.0%
Aviation Administration	494.5	494.5	494.5	0.0	0.0%
Total Regular Positions	9,057.5	9,057.5	9,057.5	0.0	0.0%
Contractual Positions					
Secretary's Office	6.4	10.0	10.0	0.0	0.0%
State Highway Administration	63.1	88.0	88.0	0.0	0.0%
Port Administration	0.6	1.2	0.5	-0.7	-58.3%
Motor Vehicle Administration	0.0	6.5	0.0	-6.5	-100.0%
Transit Administration	13.0	16.0	16.0	0.0	0.0%
Aviation Administration	0.0	0.5	0.5	0.0	0.0%
Total Contractual Positions	83.1	122.2	115.0	-7.2	-5.9%

Source: Department of Budget and Management

Debt Service

The fiscal 2022 allowance for debt service payments is \$451.3 million, an increase of \$35.4 million (8.5%) over the fiscal 2021 working appropriation. The increase is the result of debt service on currently outstanding debt plus the estimated debt service due to the planned issuance of \$100 million in fiscal 2022. At the end of fiscal 2022, debt outstanding on the department's Consolidated Transportation Bonds is projected to total nearly \$3.5 billion, which is within the statutory cap of \$4.5 billion. The MDOT forecast indicates that debt service coverage ratios will remain above the minimum threshold throughout the forecast period although, in fiscal 2022 and 2023, they will dip below the higher target level that MDOT has adopted as an administrative practice.

State Aid – Mandated Capital Grants

Prior to fiscal 2020, local governments shared in a portion of the tax and fee revenues that are deposited into the GMVRA, commonly referred to as HURs. Since fiscal 2009, the local share of HUR had been 9.6% of the GMVRA with MDOT retaining 90.4% of revenues to support its operating and capital budgets. Chapters 330 and 331 of 2018 converted this local aid from a share of the GMVRA revenues to mandated capital grants based on a percentage of total GMVRA and also increased the amount that local governments would receive to an amount equivalent to 13.5% of the GMVRA for fiscal 2020 to 2024. This change increased MDOT’s bonding capacity since it now retains all GMVRA revenue.

Exhibit 13 shows the mandated capital grant amounts for fiscal 2020 through 2022. The fiscal 2022 mandated capital grant funding of \$254.2 million is \$17.4 million (7.3%) higher than the fiscal 2021 working appropriation.

Exhibit 13 State Aid – Highway User Revenues Capital Grants Fiscal 2020-2022

	<u>Actual Fiscal 2020</u>	<u>Working Fiscal 2021</u>	<u>Allowance Fiscal 2022</u>	<u>Change</u>
Baltimore City	\$145.8	\$145.6	\$156.3	\$10.7
Counties	56.2	56.1	60.3	4.1
Municipalities	35.1	35.1	37.7	2.6
Total	\$237.2	\$236.9	\$254.2	\$17.4

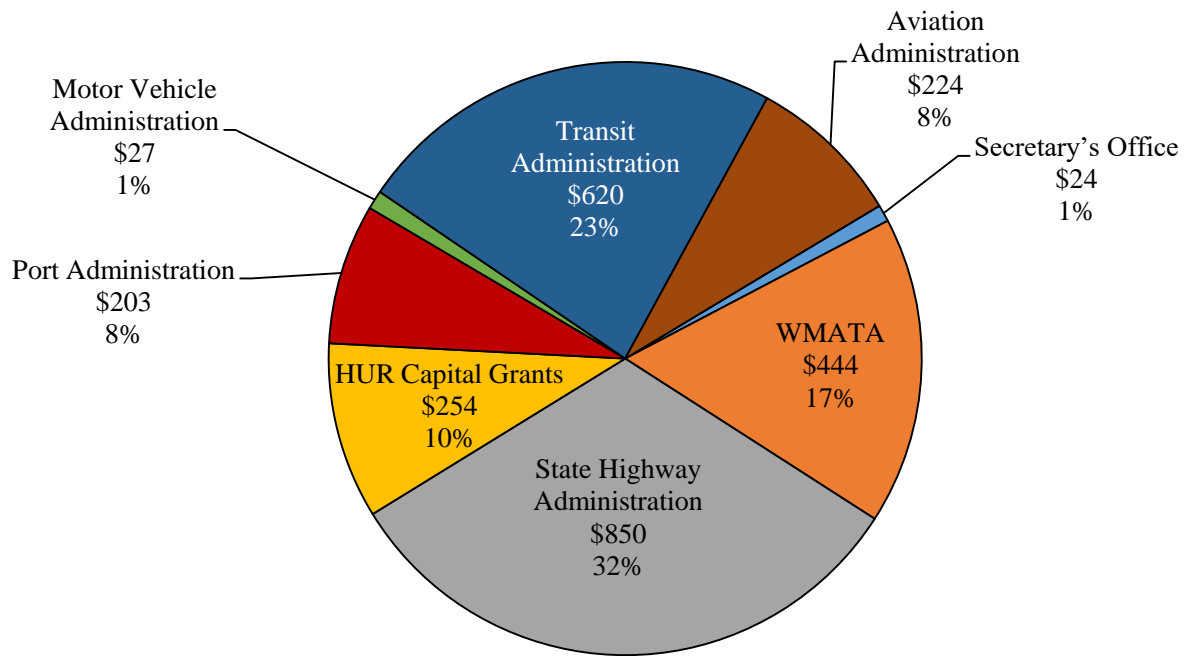
Source: Governor’s Fiscal 2022 Budget Books

PAYGO Capital Budget Analysis

Fiscal 2022 Capital Budget

Exhibit 14 shows the MDOT fiscal 2022 capital budget by mode. Including other funds that do not flow through the MDOT budget, fiscal 2022 capital spending is projected at \$2.6 billion, a decrease of \$180.2 million (a 6.4% reduction) from capital spending programmed for the current year.

Exhibit 14
Fiscal 2022 Capital Funding by Mode
(\$ in Millions)



Total Spending: \$2.6 Billion

HUR: Highway User Revenues

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2021-2026 Consolidated Transportation Program

Other Funds

The fiscal 2021 to 2026 CTP shows \$564 million in other funds for fiscal 2022, as shown in **Exhibit 15**. Other funds normally comprise only funds that do not flow through the Maryland budget. However, for fiscal 2022, there is \$125 million in GO bond premiums programmed to support the WMATA capital grant that are categorized in the CTP as other funds but are included in the WMATA capital grant appropriation in MDOT's budget. Traditional examples of other funds comprise passenger and customer facility charges at the Baltimore-Washington International Thurgood Marshall Airport (BWI), Maryland Transportation Authority (MDTA) loans, county participation, private funds, and federal funds received directly by WMATA.

Exhibit 15 Fiscal 2022 Other Funds (\$ in Thousands)

<u>Project</u>	<u>Funding Source</u>	<u>Amount</u>
Concourse A/B Connector and Baggage Handling System	Revenue Bonds	\$104,386
Vehicles and equipment	Passenger Facility Charge	969
Residential Sound Mitigation Program	Passenger Facility Charge	2,293
Federal Inspection Service Hall Reconfiguration	Passenger Facility Charge Bonds	4,340
Concourse D HVAC Replacement	Passenger Facility Charge Bonds	8,202
MAA Shuttle Bus Replacement	Certificates of Participation	12,500
BWI Restroom Improvement Program	Passenger Facility Charge Bonds	22,063
Airline Maintenance Facility Infrastructure	Maryland Transportation Authority Loan	21,865
<i>Subtotal – Maryland Aviation Administration</i>		<i>\$176,618</i>
50-foot Berth at Seagirt Marine Terminal	USDOT Grant	\$2,751
Low Emission Vehicles Upgrade	Volkswagen Settlement Trust	1,370
Howard Street Tunnel Upgrades	CSX/PennDOT/Baltimore City/GO Bonds/ Maryland Transportation Authority	51,500
<i>Subtotal – Maryland Port Administration</i>		<i>\$55,621</i>
Non-State Purple Line (Bethesda Metro)	Montgomery	\$6,750
Purple Line Capital Crescent Trail	Montgomery	3,068
Non-State Purple Line	Prince George's	60,893
Metro Fleet and Signal Replacement	SHA Toll Credits	12,075
Bus Replacement	SHA Toll Credits	4,957
Howard Street Rail Replacement	SHA Toll Credits	2,968

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<u>Project</u>	<u>Funding Source</u>	<u>Amount</u>
Martin State Airport Improvements	Amtrak	402
Freight Worton Track Safety	Private railroads	86
<i>Subtotal – Maryland Transit Administration</i>		<i>\$91,199</i>
Maglev	Private Company	\$719
<i>Subtotal – The Secretary’s Office</i>		<i>\$1,500</i>
WMATA Federal Funding	Federal Government	\$99,870
WMATA Capital Funding	GO Bond Premium	75,000
WMATA Matching Funds for PRIIA	GO Bond Premium	50,000
<i>Subtotal – WMATA</i>		<i>\$224,870</i>
Reimbursable Projects	3rd Parties	\$15,000
<i>Subtotal – SHA</i>		<i>\$15,000</i>
Total – Other Funds		\$564,027

BWI: Baltimore-Washington International Thurgood Marshall Airport

GO: general obligation

HVAC: heating, ventilation, and air conditioning

MAA: Maryland Aviation Administration

PennDOT: Pennsylvania Department of Transportation

SHA: State Highway Administration

USDOT: U.S. Department of Transportation

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation; Department of Legislative Services

Issues

1. Purple Line Work Progressing as New Design-build Contractor Sought

In spring 2016, MDOT MTA selected the Purple Line Transit Partners (PLTP) to design, build, finance, operate, and maintain the Purple Line light rail system through a 36-year public-private partnership (P3) concession comprising a 6-year construction period followed by a 30-year operations and maintenance period. The P3 agreement provided for PLTP to be compensated through construction progress and milestone payments during project construction, a revenue service availability payment at the time revenue operations of the transit line commenced, and semi-annual availability payments (AP) during the operations and maintenance period of the concession.

The planning, design, construction, and equipping phase of the project had a projected cost of \$2.4 billion to be funded from the following sources:

- \$900 million of Federal Section 5409 New Starts funds;
- \$36 million of Federal 5307 Urbanized Area Formula funds;
- \$450 million of State/local funds; and
- \$1,021 million of PLTP financing (private equity and borrowed funds including a federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loan).

Revenue service was expected to begin in March 2022.

Before construction began, however, a lawsuit brought by a group opposing the construction of the project resulted in the U.S. District Court for the District of Columbia vacating the record of decision (ROD) in August 2016, which prevented the expenditure of federal funds for the project until the ROD was reinstated by the U.S. Court of Appeals for the District of Columbia Circuit in August 2017. This, and other alleged delays and events, led the design-build contractor for the project, the Purple Line Transit Constructors (PLTC), to file time and compensation claims. MDOT MTA granted a portion of the time extension related to the vacation of the ROD but denied other time extension claims and compensation claims.

Litigation and Cost/Delay Disputes

Citing the disputed time and compensation claims, PLTC informed PLTP of its intent to exit the project in May 2020 and, in June 2020, PLTP notified MDOT MTA of its intent to terminate the P3 due to extended delay. MDOT MTA disputed the right of PLTP to terminate the P3 agreement and sought relief through the Baltimore City Circuit Court but was ultimately unsuccessful. MDOT MTA entered into an Assignment and Assumption Agreement dated September 28, 2020, the purpose of which was to convey to MDOT MTA key contracts and subcontracts for the project. Litigation was

initiated by both parties, but discussions resulted in a settlement agreement to resolve the various disputes and claims.

Settlement Agreement

On December 16, 2020, the Board of Public Works (BPW) approved a settlement agreement between MDOT MTA and PLTP resolving the disputes and litigation and providing a path forward for the Purple Line project to be completed under the P3 agreement. Major terms of the settlement comprise:

- a settlement payment by MDOT MTA in two installments (\$100 million made December 28, 2020, and the remaining \$150 million to be provided on the earlier of the closing on new financing for the project or the 12-month anniversary of the effective date of the settlement);
- the complete exiting from the project by Fluor Enterprises, Inc. and any of its affiliates;
- the selection of a replacement design-build contractor by PLTP in coordination with MDOT MTA within 9 months;
- continuation of management of the project by MDOT MTA during the design-build contractor replacement period with incurred costs shared 50/50 with PLTP and PLTP's contribution capped at \$50 million (work during this period will focus on completing design, securing needed permits and right-of-way, and utility relocations – all activities that should reduce risk with the project and add value in the rebidding of the design-build contract); and
- new financing for the project combined with restructuring of the TIFIA loan.

The second installment of MDOT MTA's settlement payment is expected to be financed by PLTP through the new financing for the project with repayment to PLTP made through the APs over the 30-year operations period of the P3 concession. Although not anticipated to be triggered, the settlement includes provisions terminating the P3 agreement on the sixtieth day following the nine-month anniversary of the effective date of the settlement agreement if a replacement design-build contractor or new financing has not been secured.

Exhibit 16 shows the expected timeline of the solicitation for a replacement design-build contractor.

Exhibit 16
Replacement Design-build Contractor Solicitation Timeline

<u>Activity</u>	<u>Anticipated Date</u>
Send Out Request for Qualifications	Early January 2021
Receive Qualifications Packages	Mid-February 2021
Issue Request for Proposals	Early March 2021
Proposers Due Diligence	March and April 2021
Receive Technical and Price Proposals	Late May 2021
Select Replacement Design-build Contractor	Mid-June 2021
Finalization of Replacement Design-build Contract	July and August 2021
Financial Close and End of Solicitation	Mid-September 2021

Source: Maryland Department of Transportation

Until a new design-build contractor is onboard and the new financing structure has been put in place, the revised project cost and schedule will not be known. Additional amendments to the P3 agreement will be needed to implement these changes. These amendments will require BPW approval.

MDOT should update the committees on the progress made in finding a replacement design-build contractor and the status of ongoing work MDOT MTA is overseeing in the interim.

2. Solicitation to Select P3 Partner for First Phase of the I-495 and I-270 P3 Program Underway

The I-495 and I-270 P3 Program is the planned construction of two managed toll lanes in each direction and the reconstruction of existing lanes on the Maryland portion of the I-495 Capital Beltway and on I-270 from the beltway to Frederick. Phase 1 of the P3 program would address the section of I-495 extending from the vicinity of the George Washington Memorial Parkway in Virginia north to I-270 (including the reconstruction of the American Legion Bridge) and the section of I-270 extending from the West Spur of I-270 connecting to I-495 north to I-370.

On December 18, 2020, MDOT and MDTA issued a request for proposals for a phase developer for the first phase of the P3 program and received technical and financial proposals (due December 23, 2020, and January 8, 2021, respectively) from three of the four teams that it had shortlisted in July 2020 based on responses received from the request for qualifications issued for the project. MDOT and MDTA are moving forward on selecting a P3 phase developer concurrent with ongoing work on the required environmental review through the federal National Environmental Policy

(NEPA) process and expects to select the Phase 1 developer team by early February 2021, and seek BPW approval of the Phase 1 developer agreement in April/May 2021.

MDOT and MDTA anticipate that NEPA activities for Phase 1 of the P3 program will be completed in fall 2021. In January 2021, MDOT formally recommended Alternative 9 as the preferred alternative for the Managed Lanes NEPA study. This would add on I-495 from south of the George Washington Memorial Parkway in Virginia across the American Legion Bridge to I-270 two high-occupancy toll (HOT) lanes in each direction, and on I-270 from I-495 to north of I-370, would add one HOT lane and convert the highway's existing high-occupancy vehicle lane into a HOT lane, resulting in a network of two managed HOT lanes in each direction. The Federal Highway Administration must approve this selection and issue a ROD before construction activity could begin. A P3 agreement for construction of Phase 1 will only be developed if a build alternative is approved as the preferred alternative in the Final Environmental Impact Statement.

As discussed earlier, traffic volume fell significantly during the early part of the COVID-19 pandemic and has yet to return to prepandemic levels. There is an ongoing debate over whether increased telework utilized as a means of maintaining social distancing to reduce the spread of COVID-19 will continue once the pandemic ends and how continued use of telework may alter travel patterns and traffic volume. If decreased traffic volume continues after the pandemic ends, the need for and benefits of the P3 program could be impacted.

MDOT and MDTA should brief the committee on how pandemic-related changes to travel and traffic volume are being incorporated in the ongoing environmental review and in the evaluation of the need for the P3 program.

3. Maryland Declines Being a Signatory in Launch of the Transportation and Climate Initiative Program

The Transportation and Climate Initiative (TCI) is a regional collaboration of 12 Northeast and Mid-Atlantic States and the District of Columbia that seeks to improve transportation, develop the clean energy economy, and reduce carbon emissions from the transportation sector. The transportation sector accounts for nearly 40% of greenhouse gas (GHG) emissions in the Northeast and Mid-Atlantic regions. The participating states are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and Virginia.

In December 2020, Connecticut, the District of Columbia, Massachusetts, and Rhode Island signed a memorandum of understanding (MOU) establishing a program to combat climate change by requiring large gasoline and diesel suppliers in these jurisdictions to purchase “allowances” for pollution caused by the burning of fuels. The auctioning of these allowances will generate revenues for the participating jurisdictions to use for investments in equitable, less polluting, and more resilient transportation. TCI had released a draft of the MOU in December 2019 for public review and comment on its plan to develop a regional carbon “cap and invest” program that would cap and gradually lower the emissions of GHG from the transportation sector while raising revenue to be used to help meet the

GHG reduction goals and mitigate impacts on low-income and disadvantaged communities. It is up to each member jurisdiction, however, to decide whether and when to participate in the program itself.

MDOT should brief the committees on the factors that are preventing Maryland from joining the MOU signatories in their efforts to reduce GHG emissions through the new regional cap and invest program.

4. MDOT Seeks to Expand Avenues for Issuing Debt

Grant Anticipation Revenue Vehicle Bonds

MDOT has submitted departmental legislation (SB 259), which would expand its authority to issue Grant Anticipation Revenue Vehicle (GARVEE) bonds that would be repaid from future federal aid. The bill would allow MDOT to issue such debt as long as the aggregate outstanding and unpaid principal amount of the debt did not exceed \$750 million as of June 30 of any year. GARVEEs have only been used once in Maryland – MDTA issued a total of \$750 million in 2007 and 2008 to help pay for construction of the Intercounty Connector. Provisions in the Transportation Article and State Finance and Procurement Article limit the maturity of GARVEE debt to 12 years and define any debt, issued for a transportation project and repaid from federal aid, as tax-supported debt which would require that GARVEE debt be included in the State’s tax-supported debt limitations. SB 259 as introduced does not modify these provisions.

Both transit and highway projects would be eligible for GARVEE funding. Projects for which GARVEE debt would be issued must be eligible for federal funding and would have to be (1) included in a CTP that had been reviewed by the Maryland General Assembly; or (2) submitted to the budget committees for review and comment pursuant to annual budget bill language regarding new capital projects. Additionally, Transportation Article Section 3-602, which would apply to GARVEEs, requires MDOT to report proposed debt issuances to the Legislative Policy Committee for review and comment at least 45 days prior to issuance.

MDOT indicates that it currently has no specific project(s) identified for which it would issue GARVEE debt but is seeking the authority to issue GARVEEs to provide an additional avenue for addressing capital funding needs.

Revenue-backed Debt

Prior to the enactment of Chapter 274 of 2014, MDOT was not authorized to issue its own revenue-backed debt; therefore, it often used either MDTA or the Maryland Economic Development Corporation as conduit issuers for its revenue-backed debt. As of December 31, 2020, MDOT had 18 revenue-backed debt issuances outstanding of which 10 were for MAA facilities. Each of the MAA revenue-backed issuances have specific revenues pledged for the payment of debt service.

Using the authority to issue its own revenue-backed debt granted through Chapter 274, MDOT intends to defease, via an advance refunding, the outstanding maturities on three MAA revenue-backed issuances through the issuance of \$210 million in refunding bonds with a projected issuance date of February 10, 2021. The refunding is expected to yield a small amount of savings, but the major benefit will be improved debt management. The refunding bonds will be backed by all operating revenue of MAA not already pledged to the repayment of outstanding debt, not just the project specific revenues. This will simplify the accounting and recordkeeping related to its debt management. MAA intends to continue this practice of using a pledge of nonspecified operating revenues when issuing revenue-backed debt. MAA plans to issue its first new-money revenue-backed debt for the A/B Connector and Baggage Handling System project at Baltimore/Washington International Thurgood Marshall Airport.

5. A Portion of the WMATA Capital Grant Appropriation Is Contingent on the Passage of Legislation

The appropriation for the WMATA capital grant in the fiscal 2022 budget bill as introduced (HB 588) includes language making \$125 million of the \$344.1 million appropriation “...contingent on the enactment of legislation providing an equal amount of funding to the Maryland Department of Transportation...” The contingency is intended to be fulfilled by enactment of Section 16 of the MCCBL of 2021 (HB 590) as introduced, which would authorize the use of premium payments from the sale of State GO bonds in fiscal 2021 and 2022, which exceed the amount that may be used for interest payments for WMATA capital projects, community college construction, and public school construction. Section 16 in the MCCBL lists the uses in the order noted above, which means funds will only be available for community college construction if the amount of premium funds in excess of the amount that may be used for debt service exceeds \$125 million (the amount of excess premiums would have to exceed \$145 million before school construction received any of the \$65 million authorized in Section 16).

Not Quite a Mandate

In addition to mandating that the Governor include a \$167 million capital appropriation for WMATA each year from the TTF, the Metro/Transit Funding Act of 2018 (Chapters 351 and 352) establishes a procedure whereby the base capital grant to WMATA would also be mandated. The key features of this procedure are that (1) WMATA submits performance, financial, and budgetary data; and (2) MDOT certifies to the Governor in writing *before the beginning of the immediately preceding fiscal year* (emphasis added) that the documentation has been submitted. When asked about the certification with respect to whether the fiscal 2022 base capital grant would be a mandate, MDOT indicated that it had made the certification a few days after the start of fiscal 2021 but that it considered the fiscal 2022 base capital grant to be mandated. A contingent appropriation cannot be used to satisfy a mandated appropriation, however, and the \$219.1 million noncontingent portion of the WMATA capital grant in the fiscal 2022 budget as introduced is insufficient to cover the \$323 million that would be required if the base capital funding were also a mandate. Chapters 351 and 352 require that

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\$155.992 million be included for the base capital grant to WMATA in the first year in which the base capital grant is mandated.

MDOT should brief the committees on the factors that prevented it from providing the certification to the Governor prior to the beginning of fiscal 2021.

Operating Budget Recommended Actions

1. Add the following language:

Provided that it is the intent of the General Assembly that projects and funding levels appropriated for capital projects, as well as total estimated project costs within the Consolidated Transportation Program, shall be expended in accordance with the plan approved during the legislative session. The department shall prepare a report to notify the budget committees of the proposed changes in the event that the department modifies the program to:

- (1) add a new project to the construction program or development and evaluation program meeting the definition of a “major project” under Section 2-103.1 of the Transportation Article that was not previously contained within a plan reviewed in a prior year by the General Assembly and will result in the need to expend funds in the current budget year; or
- (2) change the scope of a project in the construction program or development and evaluation program meeting the definition of a “major project” under Section 2-103.1 of the Transportation Article that will result in an increase of more than 10% or \$1,000,000, whichever is greater, in the total project costs as reviewed by the General Assembly during a prior session.

For each change, the report shall identify the project title, justification for adding the new project or modifying the scope of the existing project, current year funding levels, and the total project cost as approved by the General Assembly during the prior session compared with the proposed current year funding and total project cost estimate resulting from the project addition or change in scope.

Further provided that notification of project additions, as outlined in paragraph (1) above; changes in the scope of a project, as outlined in paragraph (2) above; or moving projects from the development and evaluation program to the construction program shall be made to the General Assembly 45 days prior to the expenditure of funds or the submission of any contract for approval to the Board of Public Works.

Explanation: This annual budget bill language requires the department to notify the budget committees of proposed changes to the transportation capital program that will add a new project that was not in the fiscal 2021-2026 Consolidated Transportation Program (CTP) or will increase a total project’s cost by more than 10%, or \$1 million, due to a change in scope. Reports are to be submitted with the draft and final versions of the CTP with each using the 2021 session CTP as the basis for comparison. In addition, notification is required as needed throughout the budget year if certain changes to projects are made.

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Information Request	Authors	Due Date
Capital budget changes from one CTP version to the next	Maryland Department of Transportation (MDOT)	With draft CTP With final CTP
Capital budget changes throughout the year	MDOT	45 days prior to the expenditure of funds or seeking Board of Public Works approval

2. Add the following language:

The Maryland Department of Transportation (MDOT) may not expend funds on any job or position of employment approved in this budget in excess of X,XXX.X positions and xxx.x contractual full-time equivalent (FTE) positions paid through special payments payroll (defined as the quotient of the sum of the hours worked by all such employees in the fiscal year divided by 2,080 hours) of the total authorized amount established in the budget for MDOT at any one time during fiscal 2022. The level of contractual FTE positions may be exceeded only if MDOT notifies the budget committees of the need and justification for additional contractual personnel due to:

- (1) business growth at the Helen Delich Bentley Port of Baltimore or Baltimore/Washington International Thurgood Marshall Airport, that demands additional personnel; or
- (2) emergency needs that must be met, such as transit security or highway maintenance.

The Secretary shall use the authority under Sections 2-101 and 2-102 of the Transportation Article to implement this provision. However, any authorized job or position to be filled above the regular position ceiling approved by the Board of Public Works shall count against the Rule of XXX imposed by the General Assembly. The establishment of new jobs or positions of employment not authorized in the fiscal 2022 budget shall be subject to Section 7-236 of the State Finance and Procurement Article and the Rule of XXX.

Explanation: This annual budget bill language establishes a position ceiling for MDOT each year to limit growth in regular positions and contractual FTEs.

Information Request	Author	Due Date
Need for additional regular or contractual positions	MDOT	As needed